



**Testimony of GerdaU
Before the Senate Energy & Technology Committee
November 1, 2011**

Mr. Chairman, members of the committee.

Good Afternoon.

My name is Tom McElroy and I serve as Director of Purchasing for GerdaU.

GerdaU is a specialty steel bar producer headquartered in Jackson, Michigan with world-class steel manufacturing plants in Jackson and Monroe Michigan. We also have operations in Fort Smith, Arkansas.

The GerdaU Group is the world's 10th largest steelmaker and the largest producer of long steel in the Americas. We have 337 industrial and commercial facilities operating in 14 countries: USA, Canada, Mexico, Brazil, India, Spain, Argentina, Chile, Colombia, Dominican Republic, Guatemala, Venezuela, Peru, Uruguay.

We currently employ approximately 900 people at our two Michigan facilities in Jackson and Monroe.

Over the years, GerdaU has made significant investments in these facilities, including a recent investment of \$67 million for upgrades at the Monroe, MI plant.

There are three major cost drivers in our business: Labor, Raw Materials and Electricity.

We are globally competitive on the first two: labor and raw materials, however our high electric costs present us with a competitive disadvantage.

Our labor costs are largely determined by our agreements with the UAW and United Steelworkers unions. I am proud to say we have a very productive workforce that is engaged and invested in the success of our business.

Our raw material costs are determined by global market forces and we have professionals dedicated to procuring materials at the most competitive prices.

However, Energy Costs are an entirely different matter.

Unlike labor and raw materials, energy costs are largely influenced by state legislative and regulatory policy. In Michigan, our energy costs have continually increased, and are now approximately 50% higher than the benchmarks we are competing against, both internal to our company and externally.

Over the past 7 year period from 2004 to 2011, our electricity costs at Jackson have increased 61%.

This is putting our Michigan operations at a serious competitive disadvantage with our domestic and global competitors-----as well as other Gerdau facilities around the world.

During 2009, our business dropped dramatically due to the financial crisis and state of the automotive industry upon which our business is heavily reliant. The Jackson mill laid off a majority of its workforce and stopped production for 9 months, shifting production to other Gerdau facilities.

Why the Jackson plant?

Because the cost of electricity at Jackson is the highest among our U.S. plants.

Fortunately, our business recovered in late 2009 and we began calling people back to work. However, for the first 8 months back we operated our Jackson plant only during the "off peak" hours. That means nights and weekends.

Why? Because it was the only way to economically run the plant due to high "on peak" energy costs.

This was extremely hard on our workforce. They are very dedicated, but it is difficult to balance family and work when your work is always at night and on weekends.

Today, due to increased demand from automotive & truck production, I am pleased to report that we are back to running full shifts at Jackson. However, we are still plagued with high electricity costs and looking for ways to lower our costs to be competitive.

Now I would like to talk about the 10% cap on electric choice imposed by PA 286.

Because we were shut down in Jackson during 2009, Gerdau was unable to sign up for electric choice. The 10% cap was reached in August, 2009, and so we are now foreclosed from shopping for the best price for electricity in the marketplace---like we do for our raw materials, natural gas, and other critical supplies for our business.

The 10% cap on choice, has resulted in "winners and losers", and unfortunately Gerdau has not been one of the "winners."

In addition to not being able to take advantage of electric choice, we also lost the benefit of longstanding special tariffs in Michigan for metal melting operations, which are being phased out.

As some of you may recall, when electric choice was implemented under PA 141 in 2000, the utilities were generously compensated for opening the market to competition.

First, DTE and Consumers received over \$160 million in "net stranded cost" recovery. Additionally, DTE and Consumers were allowed to securitize \$2.2 billion in assets underwritten by 15 year bonds paid for by a surcharge on all rate payers' electric bills. If you look at your electric bill, you will see this charge listed. It has been there since 2000 and will continue until 2015 when the bonds are paid off.

We look at this "securitization charge" every month for our Jackson and Monroe facilities. It reflects the continuing cost to all ratepayers of opening the market to 100% competition in 2000.

As I stated earlier, we are unable to access competition due to the 10% cap imposed under PA 286 in 2008.

However, we are still paying securitization charges for 100% competition.

As I indicated, these charges are substantial. For our Jackson and Monroe facilities combined, they amount to about \$3.5 million dollars per year. Yes, \$3.5 million per year.

It is extremely frustrating. It is like being forced to make payments on a car you are not allowed to drive.

So what should be done to address Michigan's high energy costs and current policy of picking winners and losers under the 10% cap?

We urge this committee and the Michigan Legislature to amend PA 286 to raise or eliminate the 10% cap on electric choice.

We believe the utilities have---and are--- being adequately compensated for opening up the market to electric choice.

DTE and Consumers received over \$160 million in net stranded cost recovery. In 2006, the MPSC stated that the utilities had fully recovered all net stranded costs.

They also received \$2.2 billion in securitization benefits for which we are still paying.

And----they receive continuing compensation and true-ups for electric choice through the "Electric Choice Incentive Mechanism" and "Decoupling Mechanisms" in their individual MPSC tariffs.

So, there is no reason the cap cannot be eliminated or lifted to allow greater competition in the marketplace in Michigan.

Gerda is a global company. We benchmark our Michigan energy costs against our competitors and sister facilities domestically and abroad and we consider Michigan to be a "high energy cost" state.

Gerda has expressed its interest in expanding its steelmaking capacity in North America.

We need to put Michigan on the map for consideration for these investments----and present and future energy costs are a significant factor in making these determinations.

Please help us lower our energy costs and make Michigan competitive.

We are currently in the queue for electric choice for our Jackson facility if and when additional capacity becomes available.

We believe the savings will be very significant and go a long way toward making our mill more competitive---and Michigan a more attractive place to grow and expand our business.

Thank you very much for your time and attention.

JACKSON

3100 Brooklyn Road • Jackson, MI 49203 • P.O. Box 1101 (49204)
(517) 764-0311 • fax: (517) 764-2706
www.gerdaumacsteel.com